

Journal of
Social and Administrative Scienceswww.kspjournals.org

Volume 5

March 2018

Issue 1

**A journey to entrepreneurship:
Converting a dream into reality
A case study***By* Falih M. ALSAATY ^{a†} & Hany H. MAKHLOUF ^b

Abstract. Owning one's own business is the realization of the dreams of many ambitious young men and women. However, business ownership has its rewards and challenges. The rewards are often financial and non-financial. It is one of the best means of wealth creation, but it can be a big disappointment and could have disastrous consequences if the entrepreneur chooses the wrong product/service, does not prepare a complete and realistic business plan, or is not adequately prepared to react to unanticipated difficulties and problems. The subject in this case, Uchechi Tatsa, is contemplating starting an import business, and trying to prepare the necessary plans that would be appealing enough to a venture capital firm to provide needed seed money. Thus, this case focuses on the provide planning phase in entrepreneurship, and the ability of a young entrepreneur, with no prior business experience, to create and run a new venture. It is written for potential entrepreneurs and students in Entrepreneurship and introductory business classes.

Keywords. Entrepreneurship, The business plan, The business concept, Venture capital, Profit margin, Return on investment (ROI).

JEL. F23, G18, G38.

1. Introduction

Uchechi Tatsa was born in a village in a poor Sub-Saharan African country. At an early age, she started to be fascinated with artistic creations, the contributions of artists to society, and the art business. Her father was the only shop owner in the village, but barely making any profits. Her mother was an art teacher in a public school, located 30 miles from the family's run-down home, and was also earning a modest salary. With five children to feed and educate, the family struggled to make ends meet.

From time-to-time, she heard her father complain about the low-level of his profits, but she also frequently heard him say that his main reward as a businessman was being able to help his fellow villagers, even the poorest among them, to get what they needed at affordable prices. She also saw him treating all his customers equally and fairly, and with a great deal of respect, regardless of their financial abilities and their place in the community. Needy customers were even given interest-free credit, and were allowed to pay for what they bought whenever they could. Thus, Uchechi was impressed with the service that her father provided

^{a†} Bowie State University, Center of Business and Graduate Studies, Bowie, Maryland, USA.

☎ . 301-860-3624

✉ . falsaaty@bowiestate.edu

^b University of the District of Columbia, School of Business and Public Administration, Washington, D.C. 20008, USA.

☎ . (301) 530-8551

✉ . hmakhlouf@udc.edu

to all members of the village community who had no other place to go to buy their basic necessities. Her father's attitude about the role of business in society taught her that businesses should not be operated just to make profits. They should also support and help the needy and disadvantaged members of the community. As a shop owner, her father confirmed what Katz & Green (2014) wrote about the multiple rewards of business ownership, including the satisfaction of serving the community.

Uchechi also observed her mother helping her students to improve their art work, and contributing to the development of their creative abilities. She often saw her mother admire the paintings of some of her students, and wonder if they would ever be recognized as gifted artists beyond their small community. Her mother even helped some students to display their paintings in the Community Center for everybody to enjoy. This family background, therefore, impacted Uchechi's thinking about the importance of both business and art in improving the quality of life in small communities and in the society at large.

After completing her high school education, Uchechi applied for, and was lucky enough to be among a few students from Africa to get, a scholarship to study painting and the art business in an Arts and Music College in New York. Due to their limited means, her parents struggled to pay for her plane ticket to New York, and were too constrained financially to pay for most of her living expenses in the United States. Thus, shortly after her arrival in New York, she got two part-time jobs at the College's library and bookstore, and found it necessary to share a small room with another art student who, like her, was fascinated with art and the art business. Hence, both of them shared similar interests and ambitions.

Like her mother, Uchechi wanted to help talented young artists to improve their lives and the lives of others; and like her father, she wanted to own a business, but on a larger scale. Her interest in starting a business became more intense when she supplemented her art education with classes in entrepreneurship and business start-ups. In those classes, she learned how companies like Ford Motors, Amazon, Apple, Facebook, Uber, and eBay were created by ambitious and astute entrepreneurs who were innovative and willing to take risk. Furthermore, she became aware and fascinated with the entrepreneurship culture in America, and the success of many in the immigrant community in starting their own businesses and making them grow. She learned from Alsaaty & Makhoulf (2012) that the United States is a "bastion of entrepreneurship" and the right place to start a business. After her successful, first year in college, she began to dream about starting a business that would market, at reasonable prices, selected talented high school students' oil paintings to be imported from several countries and from as many schools as possible.

2. The motivation and preparation for entrepreneurship

Uchechi was curious about the various factors that motivates entrepreneurs to assume the risk of starting a business, and about the qualities needed for success in business. She imagined that entrepreneurs require more than willingness to assume risk. The literature she has read also indicated that entrepreneurship requires hard work, stamina, persistence, positive outlook, determination, and problem solving skills. Hence, entrepreneurship is not for everyone, particularly not for those who are easily discouraged and are not comfortable with uncertainty. The literature she read in the entrepreneurship classes pointed to motivating factors for entrepreneurs that make them less inclined to work for others, including:

1. The desire for independence and becoming one's own boss.
2. The desire to introduce innovative ideas, services, business models, or products.
3. The desire to avoid the constraints that large companies impose on innovative employees to avoid the risk of failure.
4. The desire to be a decision-maker, not a decision-taker; a leader, not a follower.

5. The desire to think outside the box to contribute to society and the marketplace.
6. The desire to maintain a family tradition.

3. Crystallizing the Business Concept

After a careful study of opportunities in the art market and possible niches, Uchechi concluded that her “Business Concept” should revolve around starting a venture that would import quality oil paintings that have been painted by talented young artists, primarily high school art students and their art teachers. Before moving any further to make this a reality, she realized that conducting a thorough market research to learn about potential demand, particularly in high income countries with a large middle class, both in the short and long terms. In addition, she knew that she had to select a business model that would differentiate her business from others. She knows that successful entrepreneurs do not just create “me too” kind of businesses that simply do exactly what other companies do.

3.1. Why Entrepreneurs Fail?

Uchechi has read that the rate of new business failures is high, although Katz & Green (2014) believe that the common perception of new business failure is exaggerated. According to them, 51 percent of entrepreneurial firms survive beyond their first five years, which they consider to be a high survival rate. Regardless of the failure or survival rates, she wants to avoid repeating the mistakes of other entrepreneurs. She wants to proceed as carefully as possible in planning her business and in preparing herself to become a successful entrepreneur and a good manager. In a magazine article, she encountered in her research, for example, she read about some of reasons that contribute to the failure of new entrepreneurs. Included among those are: having unrealistic expectations, poor management skills, inability to listen to opposing opinions, blaming others for their mistakes, inability to adapt to unexpected conditions, overestimating themselves and the desirability of their product, believing in miracles, and inability to find the right amount and kind of funding. She is not surprised that those reasons can cause businesses to failure.

Among those reasons, her lack of managerial experience concerns her the most, but she thinks that she is a quick learner and would not hesitate to seek advice from experienced entrepreneurs and consultants, whenever such advice is needed. She is encouraged by Katz & Green’s (2014) contention that if a student has persistence and good negotiating skills, the sky is the limit in retailing and wholesaling, provided that he/she concentrates on a product he/she understands. Uchechi would also like to follow the advice of writers like Bateman, Snell, & Konopaske (2017), who recommend that new entrepreneurs appoint an advisory board, composed of experienced business owners and managers, who may help in giving practical advice, in establishing business relationships, and in sharing the benefits of their business experience.

3.2. The state of the art market

From her market research, Uchechi has learned also that the art market is huge and is increasingly becoming global. Of course, the richer the country, the greater the demand for art objects of all kinds is likely to be. Impressed by the size of the art market, Robert Klonoski of Marybaldwing College has estimated that there are, at least, six billion paintings, photographs, and other decorative pieces of art on display in the United States alone. Uchechi has also discovered that over 800,000 art auctions are held annually in different parts of the world. In addition, she has learned that alongside the primary art market (auction houses) that handles famous and other high-end art objects, there is a substantial secondary market, composed of art galleries, retail shops, pawn shops, and other retail outlets that sell low-end art objects that are affordable to the majority of people. Furthermore, there is a

growing online art trade, which approached about \$3.27 billion in 2016. She has found as well that prices at these different venues are influenced by:

1. The quality of the art object,
2. Its condition and rarity,
3. the fame of the artist,
4. the state of the economy, and
5. recent rates of price appreciation.

Uchechi's art market research further revealed that art objects, i.e. paintings and other art display items, are purchased for different reasons, including collecting; personal enjoyment; investment (high re-sale value); for display; for gifting; as status symbols; and for decorating homes, offices, and public places, among other reasons. The motive behind the purchase of some art objects also influences how much buyers are willing to pay for them. Uchechi hopes that her acquisitions would be bought for personal enjoyment, decorating walls, and for their affordability.

3.3. Choosing a business model

After considering alternative business models, Uchechi has decided to market her paintings online. She believes that a well-designed, user-friendly, and informative Website can help her reach, and interact with, the largest number of customers at the lowest possible cost, especially if such website is linked to other popular Websites like Google Search, eBay, or Amazon.com. Lower operating costs would add to the venture's competitive advantage, and hopefully, results in lowering prices and realizing higher returns on sales.

To acquire oil paintings that would be sold through the internet, Uchechi believes that she would have to establish a broad network of suppliers within art departments in high schools in many countries that have not previously been known as sources of quality oil paintings or other contemporary art objects. The purpose is to provide those artists with an opportunity to access the world market without leaving their home countries. Although selling the acquired paintings would be completely done online, Uchechi intends to travel widely to personally select the kind of paintings she would be proud to sell. Uchechi considers that competition makes all businesses cost-conscious, but she also believes that customer satisfaction would be the venture's path to profitability and growth.

3.4. The preparation of the business plan

At this point, Uchechi has decided to put together a business plan that would give a clear description of the business, her future expectations as well as marketing and financial projections for a number of years. Typically, the Business Plan would reflect the vision, mission, and purpose of the venture. It would also refer to the resources that would be needed to make it a success, the challenges that might be encountered along the way, and the strategy and steps to be taken to overcome such challenges. The Business Plan usually includes as well a market analysis, a description of the target market; revenue projections; capital requirements; the legal structure of the venture (sole proprietorship, partnership, or corporation); human resource requirements; the business model to be adopted; operational strategy and procedures; and projected costs, revenues and returns on investment (ROI). Uchechi has learned from the entrepreneurship courses that having a carefully-prepared Business Plan is crucial in order to attract potential investors and/or partners. A Business Plan can also guide the founder in the initial phase of operations.

3.5. Sales, growth, and profit forecasts

Uchechi thinks that the sky is the limit as far as the world-wide supply of reasonably-priced and quality oil paintings, drawn by talented but unknown young artists in high schools and their teachers. She is also convinced that her energy and marketing skills would help her generate enough revenues that assure profitability

and the overall success of her business, both in the short- and long-terms. Hence, she estimates that the venture can generate around \$500,000 in the first year with an average profit margin of 40%. This rate is common in the art business. She also expects that sales would grow at an annual rate of 20% as the business acquires more experience in the marketplace.

3.6. Seeking outside help

As she has learned from the courses that she took that new entrepreneurs, who had no prior business experience, may not be able to do all the necessary planning just by themselves. Accordingly, Uchechi intends to seek the help of legal and accounting specialists. The first is to advise her on any required licenses and permits, the registration of the venture's trade name, the relevant laws and regulations, and the documents that are legally required. The latter would be needed to advise on the financial statements that have to be prepared for control and for tax payment. Advice will also be sought from the Service Corps of Retired Executives (SCORE), which provides free consultation to entrepreneurs in order to eliminate any gaps in planning. Another action she intends to take is the appointment of an advisory board, composed of experienced entrepreneurs who, as mentioned before, would provide guidance and market- tested ideas.

3.7. Preferred source of funding

According to her best estimate, Uchechi needs between \$100,000 and \$200,000 to get her venture started. After reading Barringer & Ireland (2011), she has become convinced that she should resort to some venture capital firms (VCs) for help. Those firms provide some financing and expertise to promising new and growing businesses. Some of them agree to finance a venture with some conditions, such as getting a percentage of the ownership or getting a share of the revenues until the funds they provide are re-paid plus some interest. Uchechi believes that this approach may be the best option for her to obtain the seed money that she needs since she cannot finance the venture by herself, and does not have partners who may assume this responsibility.

According to the National Venture Capital Association, venture capitalists provided small businesses and entrepreneurs in the United States with start-up and business growth capital amounting to \$70 billion in 2017. From her readings about the kind of businesses, in which venture capitalists get involved, she believes that her venture would be quite appealing, and would meet most expectations. She is also convinced that venture capital firms would most likely be impressed by her burning desire to become an entrepreneur. According to Alsaaty & Makhoulf (2007), this inner energy and zeal add to chances of success in getting funded because they help in making the venture potentially successful.

Uchechi knows that venture capitalists appreciate the entrepreneur's confidence in the future success of the business. However, they also make their decisions on the basis of their assessment of:

1. Existing or potential demand for the product or service in question.
2. The venture's competitive edge and the possibility that the business would maintain its competitive advantage at least for the next five years.
3. Potential revenue and its rate of growth.
4. The extent of the owner/manager's commitment to the venture, and his/her capability and reliability.
5. Profitability and projected returns on investment (ROI) in the short and long terms.
6. The appropriateness of the chosen business model.
7. Capability to deliver the promised product and/or service.
8. Sufficiency of the estimated financial resources being sought to run the business.

In presenting her request for funding, Uchechi intends to emphasize existing and future demand for reasonably priced oil paintings, the extensive supply

Journal of Social and Administrative Sciences

network that she intends to create, and the venture's low overhead and operating costs. However, in the event that she does not find much interest among venture capitalists to provide the needed seed money, Uchechi intends to look for reliable partners with a similar interest, passion, and the financial ability to get the venture started. She also understands that the U.S. Small Business Administration (SBA) may, at some time in the future, be approached to provide the venture with a loan or a loan guarantee that her business may be qualified to get.

In addition to Uchechi's concerns about getting the required start-up capital, she is wondering about the steps that need to be taken to move the venture from the planning phase to become fully established and active in the art market.

Appendix

Discussion Questions

1. How would you assess Uchechi's readiness to start her own business?
2. What other steps, if any, should be taken before approaching the venture capitalists to provide the needed equity capital?
3. Do you think that Uchechi would be successful in getting funding from a venture capitalist? Why or Why not?
4. Overall, do you think that this venture will eventually become a success and grow at the projected rate of 20% a year? Why or why not?
5. Would you advise Uchechi to look for a partner? If so, how and why? What would make her regret following your advice at a future date?
6. Is Uchechi under-estimating or over-estimating her venture's capital requirements? Justify your answer.
7. Based on what you have read in this case, is Uchechi under-estimating or over-estimating the challenges involved in starting and running this business?
8. In light of what you have read in this case, how do you think this venture would look like in five years?
9. Would you like to invest or become a partner in this business? Why or why not?
10. Do you think that Uchech's father is the right role model for an aspiring entrepreneur? If so, why?

References

- Alsaaty, F., & Makhoul, H. (2007). *Entrepreneurship*. Publish America.
- Alsaaty, F., & Makhoul, H. (2012). *The Entrepreneurial Reach*. Word Association Publishers.
- Barringer, B., & Ireland, R.D. (2011). *Entrepreneurship*. Pearson/Prentice Hall.
- Bateman, T., Snell, S., & Konopaske (2017). *Management*. McGraw Hill.
- Katz, J., & Green III, R. (2014). *Entrepreneurial Small Business*. McGraw-Hill.



Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal. This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by-nc/4.0>).

